

SNOHOMISH COUNTY, WASHINGTON
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. County Officials Should Improve Accounting Controls Over Cash And Investments

Our audit of cash and investments disclosed the following areas where accounting controls should be improved:

- a. The accounting system for tracking investment transactions is inadequate. Investment balances reported to some districts that use the county as their ex officio treasurer are inaccurate and are not reliable. Manual ledgers were used to track the 780 investments totaling over \$680 million at December 31, 1993. The present system is not sufficient. It does not provide accounting for purchased interest on investments, and account balances are not properly reconciled to financial institution statements.
- b. Accounting records for contractors' retainage accounts are not accurate. Control over bank accounts for retainage on construction contracts is inadequate. Accounting records are not reconciled to bank statements. Closed accounts are not consistently removed from the general ledger. Also, the general ledger balances are not accurate. When county officials do not properly account for retainage accounts the risk of errors or irregularities not being detected in the normal course of business is increased.
- c. Daily deposits are not reconciled to receipts by mode of payment. This reconciliation is not performed because the cash receipting system does not record this information. Reconciling by mode of payment increases the assurance that all cash collected is deposited.

We recommend that county officials improve accounting control over cash and investments.

- a. Purchased interest on investments should be accounted for, and investment accounts should be reconciled to statements received from financial institutions.
- b. Retainage accounts should be reconciled to bank statements. Closed accounts should be removed from the general ledger.
- c. Deposits should be reconciled to receipts by mode of payment.

2. The Treasurer Should Reconcile Warrants Payable For School Districts

Our review of the county treasurer's operations revealed that the treasurer does not reconcile warrants outstanding for the school districts. This condition was also reported in our prior audit report on the county. As a result, the balance reported in the school district's financial statements may be inaccurate and accounting control over disbursement transactions is weak.

The county treasurer is the ex officio treasurer of school districts within the county per RCW 28A.510.270. The duties of the treasurer under that statute require reconciling school district warrants outstanding. Snohomish County Code section 2.100.080(2)(b) reserves to the county treasurer:

All powers and duties with respect to the collection, disbursement and management of junior taxing district (i.e., school district) funds

The treasurer's office expects to complete a project automating the warrant reconciliation process before the end of 1994. If so, warrants outstanding could be reconciled in early 1995.

We recommend that the county treasurer continue to work towards statutory compliance.

3. County Officials Should File Financial Statements On A Timely Basis

County officials were late in preparing their financial statements for 1993. Complete financial statements were filed with the State Auditor's Office on August 15, 1994.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor. . .

Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

According to county officials, the late report resulted from a combination of factors. Those included the focusing of resources toward improving the budget process, financial systems and interim reports; and the transfer of some of the statement preparation responsibility between managers in the department.

Late annual financial reports result in decreased accountability to county officials, the public, and other interested parties.

We recommend that county officials develop procedures to ensure that the annual reports are filed in a timely manner.

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Schedule Of Federal Findings

1. County Officials Should Improve Accounting For Grants

Accounting records at Snohomish County do not comply with federal grant requirements. Documentation supporting grant expenditures does not identify the source of federal funding. Federal regulations and the Single Audit Act of 1984 require that the source of federal funding be identified on grant expenditure transaction documentation.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments: Federal Agency Implementation of Common Rule*, Subpart C. Section 20 (b)(2) states in part:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

The county does maintain records that identify the source of federal assistance, and records are maintained that identify the application of funds. The records are sufficient for auditing individual federal programs, however, they are not adequate for an audit performed under the Single Audit Act.

The Single Audit Act requires that the audit of federal assistance programs be integrated with the audit of the county's financial statements. Public Law 98-502 (the Single Audit Act) Chapter 75, Section 7502 (d) requires that transactions tested as part of the county's financial audit be tested for compliance with federal laws and regulations that apply to the transactions. There is a risk that some tests will not be performed because there is no practical means for differentiating between federal and nonfederal transactions tested as part of the financial audit.

County officials have not been able to account for transactions from federal assistance programs in compliance with federal requirements due to the lack of an integrated cost accounting system. They are actively working on developing this capability.

We recommend that county officials improve accounting for grants. Grant related financial transactions should be identified in the county's financial accounting system in compliance with federal requirements.

2. Airport And Human Services Department Officials Should Improve Control Procedures Over Suspended And Debarred Requirements

Our tests of major federal financial assistance programs administered at the Human Services Department and Snohomish County Airport disclosed that officials do not have a control structure in place to provide reasonable assurance of compliance with federal grant requirements pertaining to contracting with suspended or debarred parties. The programs tested included U.S. Department of Health and Human Services programs; Low-Income Home Energy Assistance (CFDA 93.568), Social Service Block Grant (CFDA 93.667), Medical Assistance Program (CFDA 93.778), and the U.S. Department of Transportation's Airport Improvement Program (CFDA 20.106).

We found that officials have not required contractors or subrecipients to provide certifications that they are not suspended or debarred. We also found that officials do not review the U.S. General Service Administration's (GSA) current suspension and debarment list to determine that contractors or subrecipients are not on it.

The U.S. Office of Management and Budget's (OMB) "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Subpart C.35 states:

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

GSA regulations require that recipients of subawards over \$25,000, e.g., contract, subcontract, or subgrant, must certify that the organization and its principals are not suspended or debarred.

Officials have not developed a control structure to provide assurance of compliance with the requirements because there have not been any known instances of county departments contracting with suspended or debarred parties.

Without the appropriate procedures, federal assistance might be awarded to a suspended or debarred party, which would result in noncompliance with the "Common Rule" requirement.

We recommend that Human Services Department and Snohomish County Airport officials review the GSA's *Lists of Parties Excluded From Procurement or Nonprocurement Programs* prior to granting a contract. County officials should consider if it may be more effective to centralize this control function by assigning the responsibility to the purchasing department. We also recommend that the departments obtain required certifications regarding debarment and suspension upon signing contract agreements.